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In the Supreme Court of the United States

October Term, 1989

WEIL CERAMICS & GLASS, INC.,
a New York Corporation,

Petitioner,

vs.

BERNARD DASH and JALYN CORPORATION,
a New Jersey Corporation,

Respondents.

REPLY FOR PETITIONERS

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I. PRELIMINARY STATEMENT

Petitioner Weil Ceramics & Glass, Inc. ("Weil") files this Reply Brief in order to respond to respondents', Bernard Dash's and Jalyn's (collectively "Jalyn"), analyses of the cases and its presentation of the factual background.

Jalyn, without stating why, has represented to this Court that Weil's Statement of the Case is misleading and incomplete. However, Weil's statement is fully based upon the opinion of the district court. (Appendix A)

The Third Circuit's decision should have been limited to whether the district court erred in its grant or denial of summary judgment. Rather, Jalyn, while ignoring a voluntary stipulation (Appendix D) relating to product quality, encouraged the Third Circuit to perform impermissible fact finding with regard to the

quality of the goods that it imports. Without any factual support, and contrary to the stipulation (Appendix D), the Third Circuit concluded that Jalyn's and Weil's goods were identical.

Additionally, Jalyn's explanation as to why the Third Circuit's decision is not in direct conflict with the Second, District of Columbia, and Federal Circuits is simplistic for failing to consider the legal analyses used by these circuits. For these reasons and the reasons contained in Weil's petition, Weil prays that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Third Circuit.

II. THE THIRD CIRCUIT ENGAGED IN IMPERMISSIBLE FACT FINDING WITH REGARD TO THE QUALITY OF THE GOODS IMPORTED BY JALYN

This Court has clearly held that an appellate court must *not* make its own findings of fact. *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 714, 106 S.Ct. 1527, 1530 (1986); *Dennison Manufacturing Co. v. Panduit Corp.*, 475 U.S. 809, 811, 106 S.Ct. 1578, 1579 (1986). However, the Third Circuit violated this principle by making its *own* factual finding that the quality of the porcelain imported by Jalyn was identical to the porcelain imported by Weil. Not only is there no basis for this finding, but on the contrary, it flies in the face of the district court's finding (Appendix A 32) and the stipulation entered into by the parties (Appendix D).

Shortly after Weil filed its motion for summary judgment, the parties stipulated that Weil only distributed A quality, the highest quality porcelain and

that Jalyn distributed A and B quality porcelain in the United States, B being lower in quality than A. (Appendix D) Despite this stipulation, Jalyn attempted to have the district court ignore the stipulation. (Appendix A 32 n. 2) The district court, astonished by Jalyn's attempt to ignore the stipulation, reprimanded Jalyn for its attempt and reiterated that Jalyn would be bound by the stipulation.

Despite the stipulation, Jalyn continues to misrepresent the facts with regard to the different product qualities. In fact, the Third Circuit said that its conclusion that the parties' respective goods were of identical quality was significant to its disposition of the appeal. And it said that if Weil could prove that the porcelain imported by Jalyn was of a materially different grade and quality from the porcelain imported by Weil, Weil's argument for trademark infringement would be stronger. (Appendix B 21 n. 11) This Court should not condone Jalyn's blatant misrepresentation with regard to the different product quality. The Third Circuit should be reversed for its impermissible fact finding made at Jalyn's behest.

III. THE THIRD CIRCUIT DECISION WAS BASED UPON THE UNIVERSALITY THEORY INSTEAD OF THE TERRITORIALITY PRINCIPLE OF TRADEMARK LAW

The Third Circuit refused to recognize the "territoriality" of trademarks and instead resurrected the rejected "universality" theory of trademark law. (Appendix B 21) Courts since *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 43 S.Ct. 244 (1923), have

recognized that trademark rights under the Lanham Act are based upon territorial rights.

In fact, this Court in *K Mart Corp. v. Cartier*, 108 S.Ct. 1811 (1988), continued and reaffirmed the recognition of trademark territoriality. In *K Mart*, the majority invalidated one of the Customs Service regulations at issue. *See*, 19 C.F.R. §133.21(c)(3) (1987). This regulation denied a domestic trademark holder the power to prohibit the importation of goods made by an unrelated foreign licensee. 108 S.Ct. at 1818. In invalidating the regulation, the Court held that under "no reasonable construction of the statutory language can goods made in a foreign country by an unrelated foreign licensee be removed from the purview of the statute." 108 S.Ct. at 1818-19.

In fact, Justice Brennan discusses the evolution of the "territoriality" principle of trademarks from the "universality" theory that was associated with pre-*Katzel* decisions. 106 S.Ct. at 1822-30. He states that the law relating to trademarks has evolved from when the authorized use by a third party worked an abandonment of the trademark to that where territorial trademark licenses are permitted. 106 S.Ct. at 1828-9.

Lever Brothers Co. v. U.S., 877 F.2d 101, 108 (D.C. Cir. 1989), after reviewing the face powder trilogy decisions of this Court, held that trademarks clearly have specific territorial scope. The United States Court of Appeals for the Federal Circuit in *Vivitar Corp. v. United States*, 761 F.2d 1552, 1564 (Fed. Cir. 1985), held in accordance with the principle of trademark territoriality that a function of trademarks is to identify the specific entity which stands behind the

goods sold under the mark, and not the product itself. *See also, Roger & Gallet v. Janmarie, Inc.*, 245 F.2d 505, 509-11 (CCPA 1957). Likewise, the Fifth Circuit has also recognized the territoriality principle of trademark law. *Fuji Photo Film v. Shinohara Shoji Kabushiki Kaisha*, 754 F.2d 591, 599 (5th Cir. 1985).

IV. THE ABILITY TO UTILIZE SELF-HELP TO PREVENT INFRINGEMENT SHOULD NOT DEFEAT A TRADEMARK OWNER'S LEGAL RIGHTS

The Third Circuit concluded that self-help is available to Lladro S.A. as a remedy to Jalyn's unauthorized sales of goods in the United States. (Appendix B 20) However, this "self-help" reasoning was rejected in *Lever Brothers* by the District of Columbia Circuit. *Lever Brothers* held that the self-help suggestion advanced by the Customs Service ignored the reality that as long as third party middlemen and retailers are used, products must be launched in the stream of international commerce with the risk that some purchaser may seek to exploit the opportunity to ride on the U.S. trademark's goodwill by bringing the goods into U.S. commerce. *Lever Brothers*, 877 F.2d at 110.

V. THE THIRD CIRCUIT IS IN CONFLICT WITH THE SECOND, DISTRICT OF COLUMBIA, AND FEDERAL CIRCUITS

The Third Circuit held that 19 C.F.R. §133.21 created an absolute exception to §526 of the Tariff Act. However, this Court in *K Mart* merely held that

Customs regulations §133.21(c)(1), (2), and (4) were reasonable agency interpretations of §526. This Court did not hold that these regulations defined the full scope of §526. *See also Olympus Corporation v. United States*, 792 F.2d 315, 320 (2d Cir. 1986); *Vivitar*, 761 F.2d at 1570.

Jalyn simplistically contends that the Second and Federal Circuit decisions holding that the Customs Service regulations do not determine the full extent of §526 of the Tariff Act have been effectively overruled by *K Mart*. Jalyn's analysis is in error. The reasoning contained in *Olympus* and *Vivitar* is consistent with *K Mart*. The Second and Federal Circuits upheld the Customs regulations by holding that the regulations were permissible interpretations of §526 within the exercise of Custom's enforcement discretion. In fact, the only inconsistency between these circuit decisions and *K Mart* is that *K Mart* "invalidated" one of the Customs regulations.

Additionally, the best evidence of a direct conflict between the Second and Third Circuits can be shown by comparing this district court's decision to the Third Circuit's decision. (Appendix A and B) The district court, in its thorough analysis, relied extensively on Second Circuit precedent before granting summary judgment to Weil on its claim of trademark infringement under §32 of the Lanham Act and on its claim of unauthorized importation under §42 of the Lanham Act and §526 of the Tariff Act. The Third Circuit rejected the legal reasoning relied upon by the district court by holding Weil was not entitled to relief.

Jalyn's attempt to distinguish *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 69

(2d Cir. 1987), strictly based upon differences in the goods, ignores the legal analysis of the Second Circuit. The Second Circuit held that the owner of a United States trademark could prevent the sale in the United States of imported goods made pursuant to a territorially restricted trademark license agreement. In conflict with the Second Circuit, the Third Circuit held that Weil, the owner of a United States trademark, could not prevent the sale in the United States of goods imported without Weil's consent. While the Third Circuit found Jalyn's and Weil's porcelain to be identical, the Weil/Jalyn stipulation establishes that Jalyn imports' lower quality porcelain. The Second Circuit's legal analysis, if used by the Third Circuit, would have barred Jalyn's products. A direct conflict exists between the Second and Third Circuits.

The Third Circuit and District of Columbia Circuit in *Lever Brothers* are in conflict with regard to their interpretation of §42 of the Lanham Act. *Lever Brothers* held that the Customs regulations applicable to §526 of the Tariff Act were inapplicable to §42 because the Customs regulations defeated the purpose of this statute. *Lever Brothers*, 877 F.2d at 105.

Lever Brothers determined that the Lanham Act was designed to protect domestic trademark holders from competitors who seek a free ride on the goodwill of domestic trademarks. *Id.* The Third Circuit, in its decision, focused on whether so-called genuine goods were being imported (Appendix B 30) instead of determining whether Jalyn was using Weil's registered United State trademark without its consent. The unauthorized use of a trademark in U.S. commerce constitutes infringement.

VI. CONCLUSION

For the reasons presented above and in the Petition for Writ of Certiorari, it is respectfully requested that the Petition for Writ of Certiorari be granted.

Respectfully submitted,

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I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and a resident of the County of Los Angeles, over the age of eighteen (18) years and not a party to the within action or proceeding; that my business address is 10835 Santa Monica Boulevard, Suite 200, Los Angeles, California 90025; that on September 14, 1989, I served the within *Reply for Petitioners regarding Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit* in said action or proceeding by depositing true copies thereof, enclosed in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California, addressed as follows:

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I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on September 14, 1989, at Los Angeles, California.

Claude A. Lagardere
(Original signed)